

THE
BABCOCK & WILCOX
COMPANY

FIFTY-FIFTH
ANNUAL REPORT

BOARDS

621.184

E114r

FOR THE YEAR ENDED
DECEMBER 31, 1935

NRB
CORP. FILE

THE BABCOCK & WILCOX COMPANY

OFFICERS

A. G. PRATT	President
ISAAC HARTER	Vice President
E. G. BAILEY	Vice President
C. W. MIDDLETON	Vice President and Secretary
A. E. PHIN	Comptroller
WILLIAM SHELDRIK	Treasurer and Asst. Secretary
W. G. DRYDEN	Assistant Comptroller
C. H. CLASH	Assistant Treasurer
F. H. HOLLOWAY	Assistant Secretary

DIRECTORS

E. G. BAILEY	A. G. PRATT
JOHN FOSTER DULLES	ROBERT C. STANLEY
ISAAC HARTER	A. A. TILNEY
C. W. MIDDLETON	WM. WOODWARD

General Offices 85 LIBERTY STREET, NEW YORK, N. Y.

Stock Transfer Agents . { BANKERS TRUST CO., 16 WALL ST., NEW YORK
THE CORPORATION TRUST CO., JERSEY CITY, N. J.

Registrars . . { THE NEW YORK TRUST CO., 100 BROADWAY, NEW YORK
COMMERCIAL TRUST CO. OF N. J., JERSEY CITY, N. J.

Auditors BARROW, WADE, GUTHRIE & Co.

FIFTY-FIFTH ANNUAL REPORT

NEW YORK, N. Y., February 27, 1936.

To the Stockholders of

THE BABCOCK & WILCOX COMPANY:

The Fifty-fifth Annual Report of The Babcock & Wilcox Company is submitted herewith. The accompanying statements show the financial condition and operating results of the parent company and its wholly owned subsidiaries—Fuller Lehigh Company, The Babcock & Wilcox Tube Company and National Drill & Manufacturing Company—consolidated. In order to simplify the Company's corporate structure, Fuller Lehigh Company, which has not been an operating company for the past several years, was dissolved shortly after the first of the present year and its assets were transferred to The Babcock & Wilcox Company.

While your Company's business was better in 1935 than in any year since 1930, orders and billings of boilers and other products were still far below normal. Orders booked in the last half of the year were in considerably greater volume than during the first six months, and if this rate is maintained results should be more satisfactory in 1936.

Unfilled orders as of December 31, 1935, were \$9,076,586.76 as compared with \$5,925,232.01 at the close of 1934—an increase of 53%—in each case not including the Boulder Canyon penstock contract.

The improved design and construction of many of the Company's products referred to in previous reports have been beneficial to it in obtaining business, have resulted in satisfactory installations, and will prove of additional advantage to the Company as the opportunity for the sale of its equipment increases.

Research and development work along lines in which the Company is interested has been carried out diligently and continuously, and the results obtained therefrom are being used to better its products.

The Boulder Canyon penstock contract is well along toward completion. The fabrication of pipe sections was completed in November last. Two of the four penstocks have been completely installed in place and the remaining two penstocks require relatively little work to complete their erection. The one penstock which to this date has been offered for the hydrostatic test required by the contract specifications has satisfactorily passed that test. It is anticipated that the entire contract will be completed by the middle of the year—more than a year and one-half in advance of the contract completion date.

Actual costs on this contract to date continue to compare favorably with the estimated costs. As set forth in the 1934 report, a portion of the estimated profits on the entire contract was taken up in that year. At the end of 1935 there had been paid or approved for payment approximately 85% of the total amount payable to the Company under the entire contract. However, the Company has, to the end of last year, taken up less than 85% of its estimate of probable profits on the entire contract, as your directors have deemed it advisable to reserve a portion of the profits until the completion and acceptance of the entire undertaking. Costs actually incurred to the end of 1935 not carried to profit and loss account are included in inventories.

Herewith are submitted consolidated balance sheet as of December 31, 1935, consolidated profit and loss account and consolidated surplus account for the year 1935, certified by Barrow, Wade, Guthrie & Co., certified public accountants. There are also submitted similar statements for the year 1934 for purposes of comparison. The reserve shown against Stocks and Bonds of other Companies on the December 31, 1934 balance sheet submitted with the 1934 report to stockholders appears on the balance sheets submitted herewith as applicable to Investments in total and has been increased by \$350,000.00 during 1935, as hereinafter described.

Income from investments for the year 1935 was in excess of similar income for the preceding year. This resulted chiefly from an increase in dividends from a partly owned company. Such company not only paid a dividend in 1935 in an amount equal to a part of its 1934 earnings, but also changed its previous dividend policy by paying in 1935 a further dividend in an amount approximating its 1935 earnings. It is expected that this policy of paying out approximately all earnings in the year earned will be continued in the future. In addition to the foregoing, such company paid a special dividend of \$491,925.00 in 1935 out of surplus accumulated to December 31, 1934. As your Board deemed it advisable to increase the reserve against investments by \$350,000.00 on account of the payment of this special dividend, such dividend has increased net earnings for 1935 as shown in the accompanying Profit and Loss account by \$141,925.00.

Depreciation of Buildings, Machinery and Equipment and Amortization of Patents in the 1935 profit and loss account submitted herewith are substantially lower than the corresponding items in 1934. This is chiefly due to the fact that no depreciation on idle plant and equipment and no amortization of patents were included in such items in 1935, inasmuch as patents and idle property, plant and equipment were written down from \$5,085,756.94 to \$485,756.94 in 1934 by setting up reserves created by the reduction of capital stock effected in that year. Also, during the year 1935 a revised estimate was made of the remaining useful life of certain of the active plant and equipment, and as a result of such revised estimate depreciation for 1935 was \$147,529.08 less than it would have been had depreciation on such assets been computed on the same basis as in 1934. This revised basis, in the opinion of your Board, is conservative.

The figure at which inventories are stated in the balance sheet represents cost to the Company and is less than the present market value thereof. Current inventories at plants represent materials required for firm orders plus minimum stocks of various kinds of materials and supplies which the Company must always carry.

The consolidated balance sheet reflects a strong financial position, and the cash balance is very gratifying. As business increases, more cash will be required to finance operations than in the recent past. Further, relatively little has been spent for new tools and equipment during the past five years, and increasing business and the improved equipment now available may justify and necessitate certain expenditures for such purposes.

During the past five years \$2,837,500.00 has been paid in dividends out of surplus, notwithstanding the very heavy operating losses suffered by the Company. Recent dividends paid have been at the rate of ten cents per share per quarter. The net result of the year's operations and the improved business outlook are encouraging to your Board, as a result of which they have this day declared a dividend of twenty-five cents per share payable on April 1, 1936, to stockholders of record at the close of business on March 20, 1936.

The Board again expresses its deep appreciation to all the employees of the Company for their complete cooperation and earnest endeavors in the Company's behalf.

By Order of the Board of Directors,

A. G. PRATT,
President.

THE BABCOCK & AND WHOLLY OWNED

Consolidated Balance Sheets as of

ASSETS		
	Dec. 31, 1935	Dec. 31, 1934
CURRENT ASSETS:		
Cash	\$ 5,991,560.90	\$ 3,143,224.01
Securities of the United States Government (Market Value 1935 \$2,445,885.90)—at Cost	2,406,206.26	2,617,126.74
Accounts and Notes Receivable (Less Reserve for Doubtful Accounts and Notes—1935 \$297,102.68—1934 \$230,325.37)	2,764,795.23	2,517,099.53
Accrued Interest	10,146.65	20,790.48
Inventories:		
Raw Materials and Supplies, Work Com- pleted and in Progress.....	3,858,789.34	5,037,932.95
TOTAL CURRENT ASSETS.....	\$15,031,498.38	\$13,336,173.71
INVESTMENTS:		
Stocks of Controlled Companies.....	\$ 2,520,215.29	\$ 2,508,214.29
Stocks and Bonds of Other Companies.....	2,349,229.77	2,294,647.54
	\$ 4,869,445.06	\$ 4,802,861.83
Less Reserve	990,981.90	626,215.05
TOTAL INVESTMENTS	\$ 3,878,463.16	\$ 4,176,646.78
FIXED ASSETS:		
Property, Plant and Equipment—Active—Less Depreciation	\$ 5,121,094.01	\$ 5,512,449.88
Property, Plant and Equipment—Idle.....	484,154.80	485,755.94
	\$ 5,605,248.81	\$ 5,998,205.82
Patents	1.00	1.00
TOTAL FIXED ASSETS	\$ 5,605,249.81	\$ 5,998,206.82
OTHER ASSETS:		
Accounts and Notes Receivable, Not Current (Less Reserve — 1935 \$10,008.10 — 1934 \$5,000.00)	58,946.48	126,432.55
DEFERRED CHARGES AND PREPAID EXPENSES.....	\$ 95,254.23	\$ 48,863.26
	<u>\$24,669,412.06</u>	<u>\$23,686,323.12</u>

WILCOX COMPANY

AND SUBSIDIARIES

at December 31, 1935, and 1934

LIABILITIES AND CAPITAL

	Dec. 31, 1935	Dec. 31, 1934
CURRENT LIABILITIES:		
Accounts Payable	\$ 707,777.05	\$ 578,449.65
Accrued Liabilities	430,981.88	287,229.77
Dividends Payable	22,700.00	22,700.00
Advance Payments on Contracts.....	262,164.18	125,316.96
Reserve for Federal Income Taxes.....	30,224.77	
TOTAL CURRENT LIABILITIES.....	\$ 1,453,847.88	\$ 1,013,696.38
RESERVES:		
For Contingencies	\$ 750,000.00	\$ 750,000.00
Sundry	346,709.67	239,838.57
TOTAL RESERVES	\$ 1,096,709.67	\$ 989,838.57
CAPITAL STOCK AND SURPLUS:		
Capital Stock (Authorized 250,000 Shares with- out par value) issued 227,000 Shares.....	\$17,600,000.00	\$17,600,000.00
SURPLUS	4,719,795.08	4,286,458.74
	\$22,319,795.08	\$21,886,458.74
Less—Capital Stock held in Treasury (In 1935 3,010 Shares—In 1934 3,119 Shares)—at Cost	200,940.57	203,670.57
NET CAPITAL STOCK AND SURPLUS.....	\$22,118,854.51	\$21,682,788.17
	\$24,669,412.06	\$23,686,323.12

THE BABCOCK & WILCOX COMPANY

and Wholly Owned Subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

For the years ended December 31, 1935, and 1934

	Year ended	
	Dec. 31, 1935	Dec. 31, 1934
Profit on Operations, after Selling, Administrative and General Expenses, including provision for Doubtful Accounts and Notes, but before Depreciation and Amortization of Patents.	\$ 458,513.89	*\$ 505,104.05
Depreciation of Buildings, Machinery and Equipment, etc.	\$ 531,140.96	\$ 786,152.67
Amortization of Patents.....		219,476.89
Total Depreciation and Amortization	\$ 531,140.96	\$1,005,629.56
Net Loss on Operations.....	*\$ 72,627.07	*\$1,510,733.61
OTHER INCOME:		
Income from Investments.....	\$ 959,617.78	\$ 192,295.53
Interest and Exchange.....	16,387.17	25,108.55
	\$ 976,004.95	\$ 217,404.08
Less Reserve against Investments...	350,000.00	
	\$ 626,004.95	\$ 217,404.08
Profit before Federal Income Taxes.....	\$ 553,377.88	*\$1,293,329.53
Provision for Federal Income Taxes.....	30,489.74	
Net Profit Transferred to Surplus Account	\$ 522,888.14	*\$1,293,329.53

* Indicates Loss.

THE BABCOCK & WILCOX COMPANY
and Wholly Owned Subsidiaries

CONSOLIDATED SURPLUS ACCOUNTS

For the years ended December 31, 1935, and 1934

	Year ended	
	Dec. 31, 1935	Dec. 31, 1934
SURPLUS AT BEGINNING OF YEAR.....	\$4,286,458.74	\$3,986,049.12
ADD—Portion of Reserve for Contin- gencies restored to Surplus.....		1,750,000.00
	<u>\$4,286,458.74</u>	<u>\$5,736,049.12</u>
ADD—Net Profit for the Year.....	522,888.14	*1,293,329.53
	<u>\$4,809,346.88</u>	<u>\$4,442,719.59</u>
DEDUCT:		
Cash Dividends	\$ 90,800.00	\$ 158,900.00
LESS — Amount received on Capital Stock held in Treasury	1,248.20	2,639.15
Net Cash Dividends.....	<u>\$ 89,551.80</u>	<u>\$ 156,260.85</u>
SURPLUS AT END OF YEAR.....	<u>\$4,719,795.08</u>	<u>\$4,286,458.74</u>

* Indicates Loss.

AUDITORS' CERTIFICATE

TO THE BABCOCK & WILCOX COMPANY,
New York, N. Y.

We have made an examination of the Consolidated Balance Sheet of The Babcock & Wilcox Company and its wholly owned Subsidiaries as at December 31, 1935 and of the Consolidated Profit and Loss and Surplus Accounts for the year 1935. In connection therewith, we examined or tested accounting records of the Company and such Subsidiaries and other supporting evidence, including confirmation of cash and securities by inspection or certificates from depositaries, and obtained information and explanations from officers and employees of the Companies. We also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying Balance Sheet and related Profit and Loss and Surplus Accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, their position at December 31, 1935, and the results of their operations for the year in consolidated form.

BARROW, WADE, GUTHRIE & Co.
Accountants and Auditors.

New York, N. Y., February 26, 1936.

BABCOCK & WILCOX PRODUCTS

WATER-TUBE BOILERS
FOR STATIONARY POWER PLANTS
FOR MARINE SERVICE

WATER-COOLED FURNACES

SUPERHEATERS

DESUPERHEATERS

ECONOMIZERS

AIR HEATERS

PULVERIZED-COAL EQUIPMENT

CHAIN-GRATE STOKERS

OIL BURNERS

GAS BURNERS

MULTIFUEL BURNERS

STACKS AND BREECHINGS

SEAMLESS TUBES AND PIPE

REFRACTORIES

PROCESS EQUIPMENT

B & W-TOMLINSON BLACK-LIQUOR
RECOVERY PROCESS

PULVERIZERS FOR CEMENT MATERIALS,
ROCK PRODUCTS, AND ORES

ALLOY CASTINGS

BRANCH OFFICES AND REPRESENTATIVES

ATLANTA, GA. - - - Candler Bldg.
BOSTON, MASS. - - - 49 Federal St.
CHICAGO, ILL. - - - Marquette Bldg.
CINCINNATI, O. - - - Carew Tower
CLEVELAND, O. - - - Guardian Bldg.
DALLAS, TEX. - - - Magnolia Bldg.
DENVER, COLO. - 444 Seventeenth St.
DETROIT, MICH. - - - Ford Bldg.
GALVESTON, TEX. - - - Security Bldg.
HOUSTON, TEX. - - - Electric Bldg.
KANSAS CITY, MO.
Federal Reserve Bank Bldg.
LOS ANGELES, CALIF. - Edison Bldg.

NEW ORLEANS, LA. - - 344 Camp St.
NEW YORK, N. Y. - - 85 Liberty St.
PHILADELPHIA, PA. - - Packard Bldg.
PHOENIX, ARIZ. - - - Luhr's Tower
PITTSBURGH, PA. - - - Koppers Bldg.
PORTLAND, ORE. - - - Failing Bldg.
ST. LOUIS, MO. - Railway Exchange Bldg.
SALT LAKE CITY, UTAH - Kearns Bldg.
SAN FRANCISCO, CALIF. - 450 Mission St.
SEATTLE, WASH. - - - Smith Tower
SAN JUAN, P. R. - - Recinto Sur 45
HAVANA, CUBA - Calle de Aguiar 104
HONOLULU, T.H. - Castle & Cooke Bldg.

